Utah Department of Transportation

Engineering Services Division

Recommended Inflation Projections – March 1, 2010

Executive Summary – Construction Item Inflation

	2010	2011	2012	2013	2014
High	*6%*	*7%*	*8%*	*8%*	*8%*
Recommended	*3%*	*4%*	*5%*	*5%*	*5%*
Low	*0%*	*2%*	*3%*	*3%*	*3%*

- Negative construction cost inflation during 2009 was caused by:
    - Slow world economy.
    - Significant downturn in the non-public construction market.
    - Increase in the number of bidders and competition for UDOT projects.
- Economic growth and positive inflation have returned. Key factors for projections include:
    - Material inflation: 0 to 8%.
    - Wage inflation: 2 to 5%.
    - Energy costs expected to:
        - Remain mostly steady near term with possible temporary price surges.
        - Be subject to possible sustained priced spikes as soon as late 2011.
    - Overall economy expected to see near term inflation rates under 3%.

Inflation Rate Supporting Documentation

Construction Items

- 1 year: 3% (Previously 4%)
- 2 years: 4% (Previously 6%)
- 3 years or more: 5% (Previously 6%)

Right of Way

- Urban Residential: 1% per year (Previously 5%)
- Urban Commercial: 1% per year (Previously 3%)
- Non-Urban: 1% per year (Previously 2%)

Engineering Services (PE and CE)

- 3% per year (Previously 6%)

INFLATION (Kiplinger Letter)
Last updated: Sept. 18, 2009
Inflation will remain subdued, despite the August increase of 0.4% in the Consumer Price Index (CPI). About 80% of last month's jump was due to higher energy prices, which we don't see continuing. Oil and gasoline prices should remain steady for the rest of this year.

Some observers fret about deflation ahead. They note that the CPI over the past 12 months is down 1.5%. But that sharp decline has been fueled by energy's return to earth. The price of crude oil, for example, rose to a peak of nearly $150 a barrel in July 2008 and is now hovering around $70.

For the year, we expect overall prices to increase about 1.5%, measured from December over December of last year. The core rate, which excludes food and energy prices, also will go up about 1.5% this year. The fact is, even with the recession ending, most businesses aren't able to raise prices.

Ken Simonsen Construction and Materials Outlook November 2009
Outlook for materials (Beyond '09)
- Construction requires physical delivery. Thus, industry is subject to price spurts, transport bottlenecks, and fuel price swings.
- Expect 6 to 8% Producer Price Index increases, higher spikes.
- Materials costs will rise 0 to 8% and labor costs will rise 3% or less in 2010.

Chinese economic growth rate will again set US construction materials inflation rate
September 01, 2009 - Jim Haughey
Overall economic inflation is expected to remain comfortably under 3% through 2011. The imported commodity inflation will be offset by weak domestic pricing in an economy operating well below full capacity. For the balance of this year, the Federal Reserve Board is more concerned with deflation than with inflation. Construction materials priced inflation is expected to be in the 5% range over the same period with a risk of a several quarter period of much higher price increases.

Reed Construction data
Jim Haughey 11/19/2009
Since late 2004, Reed Construction data has identified 8 distinct price trends for construction materials alternating between annualized inflation as low as -8% and as high as 17%. The price cycles range from a few months to nearly a year in length. The trend has recently shifted from steeply declining to modestly rising. The materials price index rose at a 4% annual rate during the summer with inflation expected to vary widely over the next year but overall be higher in 2010.

Jim Haughey 10/2/2009 – Construction unemployment tops 17%
The current 17% unemployment rate for construction workers, together with the relative sluggish recovery expected, will keep construction wage gains under the inflation rate and will prevent labor availability problems for several years.

Jim Haughey 10/6/2009
Construction wage gains continue to weaken:
- Next 9 months, 2% wage gains for construction.
- Will slowly ramp up to 4.5% to 5% by 2012.

Jim Haughey 10/2/2009 – Recent Jump in Energy Prices will not be Sustained
Non-OPEC production is now rising, especially in the former Soviet republics, Brazil and even in the US. World oil consumption will be rising again by yearend after more than a year of steep decline but will remain in the depressed range over the next year. Assuming normal weather, there is little risk of a sustained spike in energy prices or a shortage that requires expediting.

But the situation changes beyond a year. An expanding world economy will gradually absorb both the inventory surplus and the reserve production capacity as soon as late 2011. This will make sustained energy price spikes again possible, as happened a few years ago at the peak of the world wide economic expansion. Until then, surges in energy prices should be temporary as frequently occurs in a volatile commodity market.

Jim Haughey 11/19/2009 – Declining Domestic Materials Demand Drops October Construction Materials Price Index
The construction materials price index fell 0.2% in October but remains 0.5% higher than three months ago. The price trend ahead is for modest increases into the winter and then larger monthly increases for the rest of 2010. Monthly price changes into the winter will more likely be up than down but the net price rise will be small until domestic demand for construction materials is again rising steadily. The key negative drivers of materials price changes now are the depressed and still falling level of US construction and a small lingering surplus of construction materials inventory. Several, international factors are contributing offsetting upward pressure on prices. The $US continues to decline and foreign construction and manufacturing demand for construction commodities is now rising again.

The October drop illustrates these conflicting price trends. The largest monthly increases were diesel fuel (+5.1%), asphalt roofing (+3.2%) and structural steel (+1.1%). These prices are largely set in international markets. The largest monthly price declines were for materials where prices are set in the depressed domestic market. This included pre-stressed concrete (-3.8%), gypsum products (-1.9%), softwood lumber (-1.7%) and ready-mix concrete (-0.6%).

The price report also includes some evidence that falling contractor margins and cuts in labor costs not captured in the official wage statistics are causing an abrupt drop in total construction costs. Bids for stimulus funded projects also suggest the same trend.

Florida DOT Transportation costs reports
August 26, 2009 Office of Policy Planning
Construction Cost Inflation Factors
Florida predicts that average inflation will hover around 3.3% through 2020.

US INFLATION Rate Forecast (ForecastChart.com)
Last updated: Sept. 2009
Forecasting that US Inflation Rates will be roughly 1.51% over the next year.

Ohio DOT July 2009 Construction Cost Inflation Forecast

Ohio DOT Inflation Forecasting

Predicted Cost Inflation FY10-FY14 as of July 2009

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
High	*6%*	*8%*	*8%*	*7%*	*7%*
Most Likely	*2%*	*3%*	*5%*	*5%*	*5%*
Low	*-1%*	*1%*	*3%*	*3%*	*3%*

NOTE: The State of Ohio's fiscal year begins on July 1st.

Parsons Brinckerhoff – Economic Forecasting Review December 2009

National Five Year Highway Construction Cost Forecast